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FM SECSTATE WASHINGTON DC  
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RUCNAFG/AFGHANISTAN COLLECTIVE  
RUEHNY/AMEMBASSY OSLO 0556  
RUEHZG/NATO EU COLLECTIVE  
RUEKJCS/OSD WASHINGTON DC  
RUEKJCS/JOINT STAFF WASHINGTON DC  
RUEKJCS/SECDEF WASHINGTON DC  
RUEABND/DEA HQS WASHINGTON DC  
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RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

UNCLAS KABUL 000530

SIPDIS

DEPT FOR SCA/FO, SCA/RA, AND SCA/A (DEUTSCH)  
DEPT PASS AID/ANE, OPIC  
DEPT PASS USTR FOR LILIENFELD AND KLEIN  
DEPT PASS OPIC FOR ZAHNISER  
DEPT PASS TDA FOR STEIN AND GREENIP  
CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT  
NSC FOR JWOOD  
TREASURY FOR ABAUKOL, BDAHL, AND MNUGENT  
MANILA PLEASE PASS ADB/USED  
PARIS FOR USOECD/ENERGY ATTACHE  
OSD FOR SHIVERS, SHINN  
COMMERCE FOR DEES, CHOPPIN, AND FONOVICH  
TOKYO ALSO FOR AID COUNSELOR AANENSON

SENSITIVE  
SIPDIS

REFTEL: KABUL 0108

E.O. 12958 N/A  
TAGS: [EMIN](#) [EPET](#) [EFIN](#) [ETRD](#) [ENRG](#) [KPWR](#) [EAID](#) [AF](#) [CH](#)  
SUBJECT: AF: UPDATE ON AYNAC COPPER MINE NEGOTIATIONS, PLANS TO  
TENDER HAJIGAK IRON ORE DEPOSIT.

SENSITIVE BUT UNCLASSIFIED

1. (SBU) SUMMARY: AFTER SEVERAL WEEKS THE AFGHAN MINISTRY OF MINES (MOM), CHINA METALLURGICAL GROUP (CMG) AND WORLD BANK-HIRED CONTRACT ADVISOR GUSTAFSON AND CO. FROM COLORADO, HAVE ARRIVED AT THE FINAL STAGE OF NEGOTIATIONS FOR THE USD 2.4 BILLION DEVELOPMENT OF THE AYNAC COPPER DEPOSIT. ALTHOUGH SOME TAXATION ISSUES REMAIN, THE MINISTRY OF MINES PLANS TO AWARD THE MINERAL LICENSE TO CMG IN MAY 2008, WITH PROJECT EVALUATION AND DEVELOPMENT PLANNED FOR THE NEXT 5 YEARS. THE AYNAC COPPER MINE IS EXPECTED TO OPERATE FOR 40 YEARS AND BRING IN ANNUAL REVENUES OF APPROXIMATELY USD 450 MILLION PER YEAR. SEPARATE NEGOTIATIONS TO OUTLINE DEVELOPMENT OF A CO-LOCATED 400 MW COAL-FIRED POWER PLANT AND CROSS-COUNTRY RAILROAD LINK WILL NOT BEGIN UNTIL AFTER MAY. WITH NEGOTIATIONS BEHIND HIM, MINISTER OF MINES ADEL IS EAGER TO BEGIN THE TENDER PROCESS FOR THE EXPLOITATION OF THE HAJIGAK IRON ORE DEPOSIT. END SUMMARY.

2. (SBU) ON THE EVE OF MINISTER ADEL'S DEPARTURE FOR THE PROSPECTOR AND DEVELOPERS ASSOCIATION OF CANADA (PDAC) CONFERENCE IN TORONTO, CANADA (MARCH 2 - 5) ECONOFF MET WITH WORLD BANK ADVISORS TO THE AYNAC NEGOTIATION PROCESS TO BETTER UNDERSTAND THE CURRENT STATE OF PLAY. NEGOTIATIONS ARE ALMOST COMPLETE, HOWEVER ISSUES ON TAXATION REMAIN. THE ADVISORS ALSO BELIEVE THE FAST-PACED TIMELINE ADEL IS INSISTING UPON IS UNREALISTIC.

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13. (SBU) THE MOM IS INSISTING ON TAXING ANY PROFITS REPATRIATED BY CMG TO CHINA. SINCE THESE FUNDS ARE EXPECTED TO BE TAXED AGAIN IN CHINA, THE RESULTING DOUBLE-TAXATION IS NOT ACCEPTABLE TO CMG (NOR IS IT IN LINE WITH INTERNATIONAL NORMS.) DESPITE SEVERAL PRESENTATIONS/MEETINGS ON STANDARD TAXATION PRACTICES IN THE MINING INDUSTRY, MINISTER ADEL HAS YET TO BE MOVED FROM THIS POSITION. HOWEVER, EVENTUAL COMPROMISE IS EXPECTED SINCE, ACCORDING TO THE ORIGINAL TENDER DOCUMENTS NEGOTIATIONS MUST BE CONCLUDED WITHIN 90 DAYS OR THE PROJECT IS AWARDED TO THE RESERVE BIDDER, CANADIAN FIRM HUNTER DICKINSON. IF ALL PROCEEDS AS PLANNED, A 30-YEAR MINERAL LICENSE (WITH OPTIONAL RENEWALS FOR 5 YEAR PERIODS) FOR THE AYNAK DEPOSIT WILL BE AWARDED TO CMG IN MAY 2008.

14. (SBU) ADVISORS ARE ALSO CONCERNED ABOUT THE TIMELINE MINISTER ADEL HAS PUSHED FOR. ACCORDING TO THE CONTRACT, CMG HAS ONLY 16 MONTHS TO EVALUATE (CREATE A BANKABLE FEASIBILITY STUDY) FOR THE COPPER MINE. THIS PROCESS CONSISTS OF ADDITIONAL ON-SITE DRILLING TO CONFIRM THE GEOLOGY, ENGINEERING, AN ECONOMIC VIABILITY STUDY AND AN ENVIRONMENTAL/SOCIAL ASSESSMENT OF THE PROPOSED PROJECT AND NORMALLY TAKES 2 TO 3 YEARS TO COMPLETE. AFTER THIS IS DONE, THE MINISTRY HAS ALLOCATED ONLY 2 MONTHS FOR A REVIEW OF THE FEASIBILITY STUDY. EXPERTS BELIEVE THE PROCESS WILL LIKELY REQUIRE AN ADDITIONAL 6 MONTHS IF IT IS TO BE DONE TO INTERNATIONAL STANDARD. ANY COSTS/PENALTIES OR OTHER BURDENS ARISING FROM DELAYS TO THIS PROCESS WILL BE THE RESPONSIBILITY OF THE MANAGEMENT COMPANY HIRED TO OVERSEE THE IMPLEMENTATION OF THE NEGOTIATED CONTRACT. THE WORLD BANK HAS TENTATIVELY AGREED TO FUND A FIVE-YEAR "CONTRACT IMPLEMENTATION" CONTRACT FOR AYNAK AT A COST OF USD 10 MILLION.

15. (SBU) ONCE THE FEASIBILITY STUDY IS REVIEWED, THEN DESIGN, PROCUREMENT AND CONSTRUCTION OF THE MINE SITE IS PROJECTED TO TAKE ANOTHER 2-3 YEARS. IF ALL PIECES OF THE PROCESS REMAIN ON TRACK, THE AYNAK COPPER MINE COULD BEGIN PRODUCTION SOME TIME IN 2012. AT

FULL CAPACITY THE COPPER MINE IS EXPECTED TO PRODUCE 200 THOUSAND TONS OF PURE REFINED COPPER PER YEAR, EARNING AFGHANISTAN APPROXIMATELY USD 450 MILLION PER YEAR AND CREATING 5,000 NEW JOBS.

RAILROAD AND POWER PLANT

16. (SBU) THE NEXT SET OF NEGOTIATIONS, EXPECTED TO BEGIN SOME TIME IN LATE MAY 2008, WILL CENTER ON THE CONSTRUCTION OF A RAILWAY LINE TO FACILITATE THE EXPORT OF ORE CONCENTRATES OR FINAL METAL PRODUCTS AS WELL AS THE CONSTRUCTION OF A 400 MW COAL-FIRED POWER PLANT FOR THE MINE. POWER PLANT CONSTRUCTION AND OPERATIONS ARE EXPECTED TO CREATE 4,000 JOBS. THE MOM ENVISAGES EXCESS POWER FROM THE PLANT BEING SOLD INTO THE NATIONAL POWER GRID.

17. (SBU) KEY TO THE CONSTRUCTION OF THE POWER PLANT IS THE AVAILABILITY OF COAL IN THE IMMEDIATE VICINITY. ALTHOUGH THERE ARE COAL DEPOSITS TO THE NORTH AND LIGNITE DEPOSITS TO THE EAST OF THE AYNAK SITE, NO TESTING HAS BEEN DONE TO DETERMINE IF THE COAL AND/OR LIGNITE IS OF SUFFICIENT QUANTITY AND QUALITY TO POWER A PLANT OF THE SIZE ENVISAGED. THE MOM, AND MINISTER ADEL IN PARTICULAR, ARE CONFIDENT THE COAL DEPOSIT WILL PROVE TO BE OF THE NECESSARY QUANTITY AND QUALITY LEADING TO THE DEVELOPMENT OF A COAL MINE OR MINES PRODUCING 5 MILLION TONS PER YEAR AND EMPLOYING SOME 15,000 AFGHANS. SHOULD COAL NEED TO BE BROUGHT IN FROM AS YET UNIDENTIFIED DEPOSITS IN AFGHANISTAN PROJECT DEVELOPMENT IS LIKELY TO BE SIGNIFICANTLY DELAYED.

18. (SBU) ALTHOUGH MINISTER ADEL HAS PREVIOUSLY DESCRIBED THE ROUTE HE ENVISAGES FOR THE NEW RAILROAD (REFTEL), WE HAVE BEEN UNABLE TO CONFIRM IF THIS WILL BE THE OPENING PROPOSAL IN NEGOTIATIONS WITH THE CHINESE. HOWEVER, ANY RAILROAD ROUTE WILL CERTAINLY BE REQUIRED TO NOT ONLY RUN PAST AYNAK (SOME 35 KM SOUTHEAST OF KABUL), AS WELL AS PAST VIABLE COAL DEPOSITS TO ENABLE POWER PLANT(S) AND POSSIBLY COAKING COAL DEPOSITS THAT WOULD ENABLE A STEEL SMELTING OPERATION, BUT ALSO PAST THE HAJIGAK IRON ORE DEPOSIT TO THE NORTHWEST OF THE CAPITAL. ENSURING THE RAIL LINE CAN EASILY FACILITATE EXPORTS BOTH NORTH AND SOUTH IS A MINISTRY PRIORITY. ACCORDING TO NEGOTIATORS, THE CHINESE ARE EXPECTED TO COMMIT TO A TOTAL EXPENDITURE OF SOME USD 4.3 BILLION FOR THE CONSTRUCTION OF THE RAIL LINE. NO PROJECTED

EXPENDITURE NUMBERS EXIST FOR THE POWER PLANT PROJECT AS FINAL COSTS WILL DEPEND GREATLY ON PLANT DESIGN AND COAL AVAILABILITY.

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HAJIGAK IRON - THE NEXT BIG PROJECT  
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¶9. (SBU) TRUE TO HIS STATED 2008 GOALS (REFTEL) MINISTER ADEL IS TRAVELING TO THE PROSPECTOR AND DEVELOPERS ASSOCIATION OF CANADA (PDAC) CONFERENCE IN TORONTO, CANADA (MARCH 2 - 5) TO GENERATE INTEREST IN THE HAJIGAK IRON ORE DEPOSIT AS THE NEXT "BIG TICKET" INVESTMENT OPPORTUNITY IN AFGHANISTAN. ACCORDING TO SOVIET-ERA DATA, HAJIGAK CONTAINS HIGHLY PURE IRON ORE (79%) AND IS CAPABLE OF PRODUCING UP TO 1 BILLION TONS PER YEAR. THE SIZE OF THE DEPOSIT IS ESTIMATED AT 180 BILLION TONS. FULL MINE PRODUCTION (ESTIMATED AT 180 YEARS) IS EXPECTED TO CREATE 10,000 JOBS.

¶10. (SBU) THE WORLD BANK HAS TENTATIVELY ALLOCATED USD 15 MILLION FOR THE PREPARATION OF A HAJIGAK TENDER. MINISTER ADEL EXPECTS TO BEGIN TENDER PREPARATION IN LATE 2008 AND TO AGAIN FAST-TRACK THE PROJECT TO AWARD A MINERAL LICENSE IN LATE 2009. AS WITH AYNAK THEY

ARE PROJECTING A 6-YEAR EVALUATION AND DEVELOPMENT PERIOD BEFORE FULL PRODUCTION CAN COMMENCE.

¶11. (SBU) COMMENT: AS WITH AYNAK, THE TIMELINE TO FULL PRODUCTION AT HAJIGAK IS OVERLY AMBITIOUS AND WE EXPECT TO SEE DELAYS BEFORE EITHER PROJECT IS FULLY REALIZED. ENSURING AYNAK EVALUATION AND DEVELOPMENT IS UNDERTAKEN AT AN INTERNATIONALLY ACCEPTABLE LEVEL APPEARS TO BE NEAR-IMPOSSIBLE IF MOM TIMELINES ARE TO BE MET. WE ARE WORKING CLOSELY WITH THE WB, ITS ADVISORS AND THE MINISTRY TO ENCOURAGE PROPER EVALUATION AND IMPLEMENTATION TO ENSURE THAT CMG FULFILLS ALL OF ITS OBLIGATIONS TO THE PROJECT. MANY QUESTIONS ABOUT THE AYNAK TENDER PROCESS REMAIN. AS A RESULT, WE WILL MONITOR THE HAJIGAK PROCESS AS IT EMERGES AND ENCOURAGE THE MINISTRY, WORLD BANK AND THE TENDER ADVISORS TO MAKE IT EVEN MORE TRANSPARENT THAN ITS PREDECESSOR. END COMMENT.

WOOD